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PROSPECTS FOR SOVIET GRAIN OUTPUT

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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

PROSPECTS FOR SOVIET GRAIN OUTPUT

The cumulative effects of the hot, dry weather in the Soviet grain lands have led us to cut our forecast of Soviet grain output to 165 million tons, down 20 million tons from our previous forecast of 185 million tons. (See the Annex for the distribution by type of grain.)

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[REDACTED] the drought is more severe in the southern and eastern Ukraine, northern Urals, and northern Kazakhstan than previously thought. This year's drought is more widespread than the one in 1972, and in many areas is worse than in 1963 and 1965, all poor crop years. Rain fell at the end of July, but this was too late to help the grain crop. The drought has also curtailed forage crops, although recent rains have improved the outlook for potatoes, the other important starchy staple in the Soviet diet.

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The total shortfall in Soviet production in relation to expected requirements probably will be in the order of 50 million tons – the equivalent of one-fourth of the total US grain crop and more than one-third of total world grain exports last year. To date the Soviets have contracted for about 13-1/2 million tons of foreign grain, and it now seems certain that Moscow will be back for additional large quantities (see Table A-1). Although the Soviets should be able to finance larger imports of grain, available world supplies are nowhere near sufficient to satisfy all Soviet needs without drastic increases in world prices.

Although the eventual volume of Soviet grain imports will be affected by the size of Western grain crops, it is clear in any event that Moscow will have to make substantial domestic adjustments to cope with a substantial part of the shortfall. The Soviets will draw on their small cushion of grain reserves (estimated in the 10-15 million ton range) and will take some combination of the following steps:

- raise milling rates – increasing the amount of flour milled from a ton of grain (as Khrushchev did following the poor 1963 harvest) would reduce the quality of bread but save approximately 4 million tons of grain;

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- slaughter livestock -- reduction in livestock inventories to the 1972 level (a 5% cut) would lower the demand for feedgrains by roughly 6 million tons; and
- reduce feed rations per head of livestock -- if these were reduced to the 1972 levels, another 13 million tons could be saved but the future output of meat would fall.
- import meat and thus further reduce domestic herds -- the EC now has 320,000 tons of surplus meat it wants to unload at bargain basement prices. It would take 4.5 million tons of grain to produce this much meat in the USSR.

Although the Soviet government, with its commitment to raising living standards, will be very reluctant to take such steps, it will have no alternative.

A harvest failure of this magnitude will complicate political life in Moscow and weaken Brezhnev's position in the leadership. The failure will have an impact on a wide range of matters: the consumer program, formulation of the next five-year plan, a program for the Party Congress in February, and relations with the West. Debate and disagreement are likely to become more heated on many issues.

ANNEX

Our current estimate of the Soviet grain crop is 165 million tons, 3 million tons less than the 1972 harvest that sparked Moscow's last round of massive grain purchases. Although the dismal prospects for this year's crop make Moscow's return to the grain market virtually certain, the type of grain that will be purchased cannot be forecast.

We forecast breadgrain production (wheat and rye) at 91 million tons (see Table A-2). The crop, plus the 8 million tons of wheat recently purchased, would be roughly 10 to 15 million tons more than the amount required for normal use and export if the quality of the Soviet crop were uniformly good.

It cannot be assumed, however, that Moscow will only buy feedgrains when it reenters the market. The problem is, as in past years, that an unknown quantity of the breadgrain harvest will not meet standards for human consumption and will be fed to livestock. If prices are favorable, Moscow may opt - as in 1972 - to buy more wheat and use lower quality domestic grain as livestock feed.

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Table A-2

USSR: Grain Production

	Million Metric Tons					
	Annual Average 1966-70	1971	1972	1973	1974	Esti- mated 1975
Total	167.6	181.2	168.2	222.5	195.6	165
Breadgrains (wheat and rye)	103.0	111.7	95.6	120.7	99.1	91
Of which:						
Wheat	90.2	98.9	86.0	109.9	83.9	79
Coarse grains (barley, corn, and oats)	52.0	57.8	60.7	85.7	81.6	58
Other grains ¹	12.6	11.7	11.9	16.1	14.9	16

1. Including miscellaneous grains and pulses.